7 September 2018

ETHERNITY NETWORKS LTD

("Ethernity Networks" or the "Company" or the "Group")

Interim results for the six months ended 30 June 2018

Ethernity Networks Ltd (AIM: ENET.L), a technology solutions provider of network data processing technology for use in high-end carrier Ethernet applications across the telecom, mobile, security and data centre markets, announces its interim results for the six months ended 30 June 2018.

Financial summary:

- Revenues of $441,247 (H1 2017 $988,995)
- Gross profit of $299,647 (H1 2017 $857,884)
- EBITDA loss of $1,111,999 (H1 2017 positive EBITDA $441,292)
- Operating Loss of $1,276,489 (H1 2017 profit $379,884)
- Cash and cash deposits balances at 30 June 2018 of $11.9m (30 June 2017 $18.2m).

EBITDA	**Unaudited**		**Audited**
	30 June 2018	**30 June 2017**	**31 December 2017**
	US$	US$	US$
Operating Profit (Loss)	(1,276,489)	379,884	152,219
Add: Depreciation	42,273	7,051	20,171
Add: Amortisation	122,217	54,357	116,064
EBITDA	**(1,111,999)**	**441,292**	**288,454**

Operational highlights:

- Successful scaling up of the Company’s sales team with increased reach into international markets.
- Continued investment in R&D to up scale the company business from an IP/technology company to a complete solutions delivery Company, including the offering of a complete software solution for our SoC business directed to Tier 1 OEMs, and the required smart NIC software.
- A new contract signed for the Company’s ACENIC 100 Smart NIC...
- Initiating a design win with a USA tier 1 OEM vendor, expected to result in ongoing royalty streams in the coming years.

Leading on from the annual results for 2017 published in June of this year, to date we have:

- Completed development of the Company’s new 100Gb ACENIC100 hardware, that will host the field proven packet processing deployed in half a million platforms to date, planned for release to customers by Q4/18.
- Continued progressing our ACENIC project wins for virtual broadband gateway, virtual router and virtual security gateways, which are in mature integration stages at customers platforms that should result in initial orders of our SmartNIC solution during 2019 and mass production during 2020.

David Levi, Chief Executive Officer of Ethernity Networks, commented:

"The first half results are in-line with our expectations with the focus being on the Company moving from an IP/technology provider to a solutions provider for virtual networking and security appliances. They reflect also market place delays around the virtualized networking environment that we have elaborated on earlier in the year, along with the difficulties wherein a historic customer experienced contractual difficulties with their customer resulting in a material decline in business with them during 2017 . In parallel the company has also invested in advancing the current technology to support higher throughput and additional functionality, targeted at Tier 1 OEM's products, that can generate clear growth and forecasts not just for smart NIC but also for the IP/ technology business.

"We stated in the past that with the funds raised we will be able to contract wins into the Tier 1 OEMs and I am pleased to report that we are in advanced stages of ENET networking software porting into a Tier 1 OEM's FPGA based platform and are in the advanced stage of signing a contract with another T1 OEM vendor. The new funding within the Company resulting from the IPO has allowed Ethernity to make the solutions breakthroughs the Company intended that will clearly demonstrate the value of our technology.

Our smart NIC business and new ACENIC100 that supports 100GE, 2x40G, and 8x10G interfaces is gaining significant traction, and as highlighted, we have already signed a contract for the new ACENIC100 in June and are in the process with a few customers that now plan to move into production and deployment with our new ACENIC100.

"We remain confident that Ethernity will meet its long term objectives and will be positioned as one of the key solutions providers in its marketplace."

For further information, please contact:

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OPERATIONAL AND FINANCIAL REVIEW

Although the challenging revenue trend has continued through the first six months of 2018, ongoing customer engagement activity has increased substantially. There has been significant progress related to Smart NIC and the Company has signed a contract with a leading APAC customer in the first half of this year and expects to receive orders from other customers in the near term.

We had elaborated earlier in the year that the adoption of the new networking virtualisation market in which we operate was delayed by some 12 months and our trading results, as a consequence, reflects this delay. We remain confident in the long term prospects of the Company as evidenced by the number of ongoing project collaborations around the Company's ACENIC product line

The company continues to operate in line with its budgeted cost base and R&D expense allocation, forecasting to generate positive cash flows from operating activities during 2020. Whilst this continues to be reviewed and adjusted where appropriate, R&D activity and related expenditure remains focussed on new product developments aligned with the market and customer requirements.

During the period under review, the Company delivered revenues of $441,247 (H1 2017 $988,995) and a gross profit of $299,647 (H1 2017 $857,884). The gross profit percentage of 67.91% (H1 2017 86.7%) is lower as compared to H1 2017 due to the different product mix within the revenues, where design wins and royalty revenues attracts a near 100% margin, contributing 55.4% of revenues in H1 2018 as opposed to 72.4% in H1 2017.

EBITDA in the first six months of the year was a loss of $1,111,999 (H1 2017 $441,292), which primarily reflects the Company's investment into the Sales & Marketing and R&D activities. The increased level of expenditure is in line with the initial plans of expanding our operational activities and the anticipated structures have now bedded down.

Operating expenses (including share-based compensation costs), as a percentage of revenues were 49.2% in H1 2017, increasing to 357% of revenues for H1 2018. The increases are attributable to increased spending on Marketing & Selling costs in-line with the Company's objectives and an increase in General & Administration expenses, specifically in relation to the Company's post IPO annual costs. The Company anticipates no further material annualised cost increases in its net R&D and Marketing and Sales expenses as it has now essentially built its teams to make the most of the opportunities in the market and to accelerate market penetration, in-line with expectation and plans.

Cash, cash deposits and cash equivalents are $11.9m as at 30 June 2018 (H1 2017 $18.2 million). Cash utilisation remains in line with forecasts. The Board remains confident that the Company has adequate cash reserves to meet its planned requirements.

SEGMENT REPORT sector analysis				
Region	**2018 Revenue**	**2018 %**	**2017 Revenue**	**2017 %**
Asia	102,754	23.29%	20,000	2.02%
Europe	77,140	17.48%	409,836	41.44%
Israel	215,113	48.75%	183,509	18.56%
United States	46,239	10.48%	375,650	37.98%
Total	**441,247**	**100.00%**	**988,995**	**100.00%**

Comparing this Segment Report to the same period in 2017, the shifting of the geographic mix is represented by the makeup of the products supplied, where in the first half of the current financial year the revenues were skewed towards royalty and component supplies in Israel. The trend is expected to change during the second half of the year as design wins and product supply as expected and based on the anticipated contract wins noted above materialise. This too should have a significantly positive impact on product margins and the gross profit percentage.

Outlook

The Board remains confident that Ethernity will meet its long-term objectives and will be well positioned as one of the key solutions providers in its marketplace. Network service providers are requiring more flexible solutions to their technology and network needs for offloading support of new data appliances introduced by the market. Ethernity believes it has the best-in-class system solutions to address these needs.

FORWARD LOOKING STATEMENTS

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". By their nature, forward-looking statements involve risk and uncertainty since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements. Any forward-looking statements in this announcement reflect Ethernity Networks' view with respect to future events as at the date of this announcement. Save as required by law or by the AIM Rules for Companies, Ethernity Networks undertakes no obligation to publicly revise any forward-looking statements in this announcement, following any change in its expectations or to reflect events or circumstances after the date of this announcement.

By order of the Board

Mark Reichenberg
Company Secretary
7 September 2018

Interim Unaudited Financial Statements
as at 30 June 2018

STATEMENTS OF FINANCIAL POSITION

	US dollars		
	30 June		31 December
	2018	2017	2017
	(Unaudited)		(Audited)
ASSETS			
Current			
Cash and cash equivalents	2,715,633	18,237,580	3,881,106
Other short-term financial assets	9,144,555	64,359	11,069,472
Trade receivables	586,203	390,814	513,965
Inventories	8,600	-	-
Other current assets	483,560	38,119	438,265
Current assets	**12,938,551**	**18,730,872**	**15,902,808**
Non-Current			
Property and equipment	328,039	48,108	155,840
Deferred tax assets	800,000	800,000	800,000
Intangible assets	5,101,645	1,836,306	3,170,553
Non-current assets	**6,229,684**	**2,684,414**	**4,126,393**
Total assets	**19,168,235**	**21,415,286**	**20,029,201**
LIABILITIES AND EQUITY			
Current			
Borrowings	-	319,440	-
Trade payables	330,710	129,110	225,087
Other liabilities	1,009,081	1,594,311	931,771
Shareholders loans	-	502,217	-
Warrants liability, at fair value	-	49,403	15,770
Current liabilities	**1,339,791**	**2,594,481**	**1,172,628**
Non-Current			
OCS royalty liability	-	42,199	-
Borrowings	6,415	93,978	7,522
Non-current liabilities	**6,415**	**136,177**	**7,522**
Total liabilities	**1,346,206**	**2,730,658**	**1,180,150**
Equity			
Share capital	8,028	8,028	8,028
Share premium	23,356,078	23,308,422	23,356,078
Other components of equity	757,137	478,192	615,322
Accumulated deficit	(6,299,214)	(5,110,014)	(5,130,377)
Total equity	**17,822,029**	**18,684,628**	**18,849,051**
Total liabilities and equity	**19,168,235**	**21,415,286**	**20,029,201**

The accompanying notes are an integral part of the interim financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	(Unaudited)		(Audited)
Revenue	441,247	988,995	1,518,661
Cost of sales	141,600	131,111	214,439
Gross profit	**299,647**	**857,884**	**1,304,222**
Research and development expenses	197,010	151,047	215,778
General and administrative expenses	600,662	162,798	591,903
Marketing expenses	778,464	172,655	556,588
Other income	-	(8,500)	(212,266)
Operating profit (loss)	**(1,276,489)**	**379,884**	**152,219**
Financing expenses	(26,385)	(200,050)	(85,727)
Financing income	134,037	-	92,979
Net comprehensive income (loss) for the period	**(1,168,837)**	**179,834**	**159,471**
Basic earnings (loss) per ordinary share	**(0.04)**	**0.01**	**0.01**
Diluted earnings (loss) per ordinary share	**(0.04)**	**0.01**	**0.01**
Weighted average number of ordinary shares for basic earnings (loss) per share	32,518,186	18,237,178	25,397,245

The accompanying notes are an integral part of the interim financial statements.

STATEMENTS OF CHANGES IN EQUITY

	Number of shares		Amounts in US dollars					
			Share Capital					
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2017 (Audited)	**18,078,500**	**3,725,400**	**4,111**	**847**	**5,629,272**	**332,107**	**(5,289,848)**	**676,489**
Conversion of preferred shares into ordinary shares	3,725,400	(3,725,400)	847	(847)	-	-	-	-
Employee share-based compensation	-	-	-	-	24,619	162,101	-	186,720
Net proceeds from issuing ordinary shares	10,714,286	-	3,070	-	17,823,301	-	-	17,826,371
Warrants issued to service provider in connection with issuance of ordinary shares	-	-	-	-	(121,114)	121,114	-	-
Net comprehensive income for the year	-	-	-	-	-	-	159,471	159,471
Balance at 31 December 2017 (Audited)	**32,518,186**	**-**	**8,028**	**-**	**23,356,078**	**615,322**	**(5,130,377)**	**18,849,051**
Employee share-based compensation	-	-	-	-	-	141,815	-	141,815
Net comprehensive income (loss) for the period	-	-	-	-	-	-	(1,168,837)	(1,168,837)
Balance at 30 June 2018 (Unaudited)	**32,518,186**	**-**	**8,028**	**-**	**23,356,078**	**757,137**	**(6,299,214)**	**17,822,029**
Balance at 1 January 2017 (Audited)	**18,078,500**	**3,725,400**	**4,111**	**847**	**5,629,272**	**332,107**	**(5,289,848)**	**676,489**
Conversion of preferred shares into ordinary shares	3,725,400	(3,725,400)	847	(847)	-	-	-	-
Employee share-based compensation	-	-	-	-	-	24,971	-	24,971
Net proceeds from issuing ordinary shares	10,714,286	-	3,070	-	17,800,264	-	-	17,803,334
Share based compensation related to issuance of ordinary shares	-	-	-	-	(121,114)	121,114	-	-
Net comprehensive income for the period	-	-	-	-	-	-	179,834	179,834
Balance at 30 June 2017 (Unaudited)	**32,518,186**	**-**	**8,028**	**-**	**23,308,422**	**478,192**	**(5,110,014)**	**18,684,628**

The accompanying notes are an integral part of the interim financial statements.

STATEMENTS OF CASH FLOWS

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	(Unaudited)		(Audited)
Operating activities			
Net comprehensive income (loss)	(1,168,837)	179,834	159,471
Non-cash adjustments			
Depreciation of property and equipment	42,283	7,051	20,171
Capital gain from sale of vehicle	-	(8,500)	(8,648)
Share-based compensation	18,951	24,971	69,178
Amortisation of intangible assets	122,217	54,357	116,064
Amortisation of liabilities	(13,623)	67,989	(13,792)
Foreign exchange losses on cash balances	-	(73,181)	-
Net changes in working capital			
Increase in trade receivables	(72,238)	(122,505)	(245,656)
Increase in inventories	(8,600)	-	-
Increase in other current assets	(45,295)	(9,394)	(409,540)
Increase in trade payables	105,623	7,150	103,127
Increase (decrease) in other liabilities	80,464	61,380	(227,624)
Net cash provided (utilised) by operating activities	**(939,055)**	**189,152**	**(437,249)**
Investing activities			
Decrease (increase) in other short-term financial assets	1,924,917	(5,841)	(11,010,954)
Purchase of property and equipment	(214,482)	(5,550)	(126,423)
Sale of vehicle	-	28,830	28,999
Amounts carried to intangible assets	(1,930,445)	(584,765)	(1,958,997)
Participating grants in intangible assets	-	-	95,820
Net cash used in investing activities	**(220,010)**	**(567,326)**	**(12,971,555)**
Financing activities			
Repayment of OCS liability	(5,301)	-	(93,034)
Proceeds from (repayments of) short term borrowings	-	156,061	(128,969)
Repayment of long term borrowings	(1,107)	(1,747)	(122,613)
Repayment of shareholder loans	-	(87,246)	(527,568)
Net proceeds from issuing ordinary shares	-	18,139,782	17,826,371
Net cash provided (used) by financing activities	**(6,408)**	**18,206,850**	**16,954,187**
Net change in cash and cash equivalents	(1,165,473)	17,828,676	3,545,383
Cash and cash equivalents, beginning of year	3,881,106	335,723	335,723
Exchange differences on cash and cash equivalents	-	73,181	-
Cash and cash equivalents, end of period	2,715,633	18,237,580	3,881,106
Supplementary information:			
Interest paid during the period	-	10,600	21,918
Interest received during the period	-	-	69,472
Non cash:			
R&D share based compensation costs capitalized to intangible assets	122,864	5,893	117,542
Issuance costs not paid in cash	-	336,448	-

The accompanying notes are an integral part of the interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL

ETHERNITY NETWORKS LTD. (hereinafter: the "Company") was incorporated in Israel on the 15th of December 2003.

The Company develops and delivers high-end network data processing technology for carrier Ethernet switching, including broadband access, mobile backhaul, carrier Ethernet demarcation and data centres. The Company's customers are situated throughout the world.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been consistently applied in the preparation and presentation of the interim and annual financial statements for all of the periods presented.

Basis of preparation of the interim financial statements:

The interim condensed financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements in accordance with IFRS and should be read in conjunction with the Company's annual financial statements as at 31 December 2017. The accounting policies applied in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2017 except as described below with respect of the implementation of new international financial reporting standards that became effective during the interim period.

The interim financial statements for the half-year ended 30 June 2018 (including comparative amounts) were approved and authorised for issue by the board of directors on 6 September 2018.

New Standards adopted as at 1 January 2018

The Company has adopted the new accounting pronouncements which have become effective this
year, and are as follows:

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The company adopted the Standard retrospectively, with cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings on the initial date of application. Under this method, IFRS 15 was only applied to contracts that were incomplete as at 1 January 2018.

The adoption of IFRS 15 did not have material impact on the company's revenue streams and selling contracts, the financial reporting and disclosures and on the business processes, controls and systems. Thus, the adoption of IFRS 15 did not have material impact on the financial statements.

IFRS 9 'Financial Instruments'

The new Standard for financial instruments (IFRS 9) replaced IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements aligned hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introduced a more principles-based approach to assessing hedge effectiveness.

The following areas were identified as the most impacted by the application of IFRS 9:

- The classification and measurement of the Company's financial assets - Management holds most financial assets to hold and collect the associated cash flows. However, management has determined that the majority of financial assets held by the Company as of the adoption date (including the company's major investment in short term deposit) are eligible to be accounted for at amortised cost as in accordance with the previous IFRS. Accordingly, the new guidance did not affect the classification and measurement of these financial assets.
- The impairment of financial assets applying the expected credit loss model - This applies to the Company's trade receivables and other short term investments in debt-type assets that were previously classified as 'Loans and Receivables'. For contract assets that will arise from IFRS 15 and trade receivables, the Company determined to apply a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about financial instruments in its annual financial instruments.

The Company applied IFRS 9, retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 were not be restated. The adoption did not have a material impact on the Company's financial statements.

New Standards not yet adopted in the financial statements

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. In accordance with IFRS 16, the accounting for leases will be as follows: leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability to pay rentals. The only exceptions are short-term and low-value leases. Each lease payment is allocated between the liability and finance expense, whereas the finance expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The accounting for lessors will not significantly change.

In order to determine the impact of IFRS 16, the Company is required to perform a full review of all agreements in order to assess whether any additional contracts will now become a lease under IFRS 16's new definition. The company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. At this stage, the Company does not intend to adopt the standard before its effective date. Management is yet to fully assess the impact of the Standard. However, in order to determine the impact, the following actions will have to be completed before the standard will become effective:

- Performing a full review of all agreements to assess whether any additional contracts will become lease contracts under IFRS 16's new definition of a lease.
- Deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated).
- Deciding which of the practical expedients to adopt.
- Assessing current disclosures with respect to for current lease agreements.
- Determining which optional accounting simplifications are available and whether to apply them.
- Considering the IT system requirements.
- Assessing the additional disclosures that might be required.

Based on management current assessment so far, the new standard is expected to affect the accounting for leased premises of its primary offices, which under the current accounting are classified as operating leases and accordingly, the lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The company estimates the effects of IFRS 16 application, based on the present value calculation, as being $270,000 in the right-of-use assets and lease liabilities over the entire period of all the leases including any options to extend the leases if such options are considered as reasonably certain to be exercised. The discount rate used to determine the lease liability was 3.1%.

NOTE 3 - FINANCING COSTS

	US dollars		
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	Unaudited		Audited
Bank fees and interest	8,320	20,666	54,264
Interest and amortization of loan discount	-	67,989	31,463
Exchange rate differences (*)	18,065	111,395	-
Total financing costs	26,385	200,050	85,727

(*) The exchange rate differences in the six month period ended 30 June 2017, are primarily attributable to the 9.1% depreciation in the US Dollar against the New Israeli Shekel.

NOTE 4 - FINANCING INCOME

	US dollars		
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	Unaudited		Audited
Interest and amortization of loan discount	20,183	-	-
Interest received	113,854	-	69,472
Exchange rate differences	-	-	23,507
Total financing income	134,037	-	92,979

NOTE 5 - SEGMENT REPORTING

The Company has implemented the principles of IFRS 8, in respect of reporting segmented activities. In terms of IFRS 8, the management has determined that the Company has a single area of business, being the development and delivery of high end network processing technology.

The Company's revenues from customers are recognized at a point of time and divided into the following geographical areas:

	US dollars		
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	Unaudited		Audited
Asia	102,754	20,000	66,439
Europe	77,140	409,836	580,771
Israel	215,114	183,509	397,464
United States	46,239	375,650	473,987
	441,247	988,995	1,518,661

	%		
	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
	Unaudited		Audited
Asia	23.3%	2.0%	4.4%
Europe	17.5%	41.4%	38.2%
Israel	48.7%	18.6%	26.2%
United States	10.5%	38.0%	31.2%
	100.0%	100.0%	100.0%

Revenue from customers in the company's domicile, Israel, as well as its major market, the United States, Asia and Europe, have been identified on the basis of the customer's geographical locations.

NOTE 6 - SUBSEQUENT EVENTS

After 30 June 2018, the Board of Directors' approved the granting of 460,000 employee stock options to employees, vesting over a four year period and expiring 10 years from the date of the grant. The exercise price of these options is GBP 1.00. The approximate Black-Scholes value of these options is $45,000.